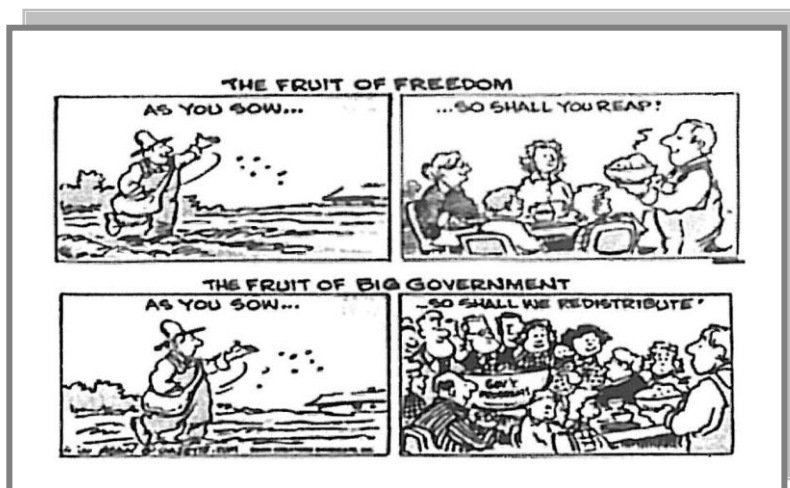


The Broken Window Fallacy

Extract from;
"Mining & the Community",
by Ron Manners; Nov. 2000
for Rotary Club of Perth



Some of you may not be overly concerned by the alarming growth in Government spending but let me explain this with what some economists call - "**The broken window fallacy.**"

The French economist Frederic Bastiat once wrote, "there is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effects; the good economist takes into account both the effects that can be seen and those effects that must be foreseen." To illustrate, Bastiat tells the following story:

A man's son breaks a window. The father, naturally, is angered by the son's irresponsibility.

However, some onlookers encourage the father to look on the bright side. "After all," one muses, "this will make business for some glazier."

Bastiat notes that this is true - on the surface. The glazier will come, repair the window, receive payment for his work, and walk away, secretly thankful for the boy's carelessness.

This is what is seen. This is why Government spending is like the broken window.

What is not seen is that the man, having spent money to repair the window, is now unable to spend it on something else.

The glazier's gain is the tailor's loss; no new employment has been created.

The American economist Henry Hazlitt called this the broken-window fallacy; this tendency to focus on a policy's immediate effects and ignore its long-term consequences, is "the most persistent fallacy in the history of economics".

Take for example, a government public works project. What we see is some public statue or public building come into being; what we do not see are all the private projects people would have undertaken if their pay-packets had not been raided by the taxation required to fund such public works projects.

The sound economic thinking exhibited by both Bastiat and Hazlitt is desperately needed today, particularly, among long suffering taxpayers who appear unaware that there are private alternatives to most of these government funded programs. The mix of environmental, heritage and indigenous title restrictions is different in Australia and New Zealand but the result is the same; namely, more restrictions, which means fewer mines in the future and a resultant decline in the living standards of both countries.

In Australia it has largely been our Native Title Act that has caused us to export so much exploration. Instead of bringing on a severe bout of depression by outlining the cost to the Australian nation of the unworkable Native Title Act, I have included as an appendix, the (Association of Mining & Exploration Companies) summary of the past seven years of frustration.

It explains how this shambles really has very little to do with anyone ever getting a fair go, and much more to do with political advantage.

These two problems of Government Greed and Restricted Land Access share a common factor - both are caused by a leadership crisis, in particular, a political leadership crisis. Put bluntly, our leaders lack the will to grab both problems by the throat and throttle them.

What can we do about this lack of political leadership?

Apart from the slow method of economic education, I don't have an easy answer because governments are so artful in the way that they extract multiple taxes from citizens that I doubt if there is a single person in this room who can tell me exactly what percentage of their income they pay in tax, and I mean total tax, including GST, stamp duty, bank taxes, land tax, etc., etc.

On the economic educational aspect of the size of the government heist from our pay packets, my website (www.mannkal.org) has a ready-reckoner to calculate your own personal TAX FREEDOM DAY.

That is the exact day of the year when you have worked every day up until then to pay your various taxes. From that day on, you are working for yourself.